POLICY PAPER

The East/West divide: how will it impact the future of the EU?

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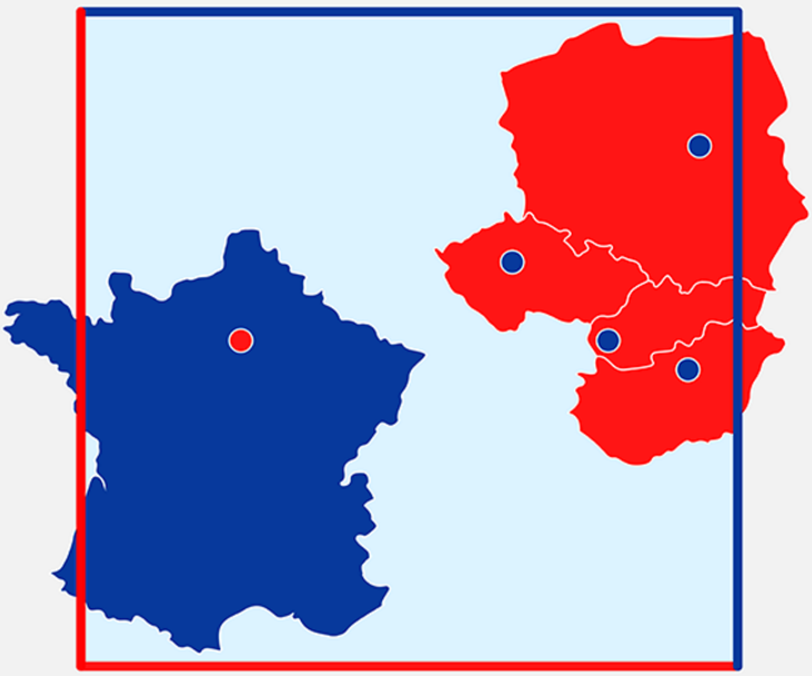
- **Europe has slowly built itself over the course of history through the divisions between East and West on the one hand, and between North and South of the continent on the other. It was from the East that civilization was transmitted to the West - the Neolithic Revolution, the colonization of the Phoenicians and Greeks, up to the important and debated Judeo-Christian roots of the continent.**

- **After that, the North-South divide became central to the creation of modern Europe, with the destruction of the Western Roman Empire followed by Germanic or Anglo-Saxon North leadership and the advances that it brought forward.**



The East-West divide has remained strong, representing a clear identity marker, opposing Catholic or Protestant Christianity to orthodoxy or Islam, Western individualism to the importance of communities in the East, nation-states to empires, liberalism to authoritarianism (or now "illiberalism"), industrial society to agrarian societies. It is a divide which continues to this day and still structures societal and political interactions, as shown by the resurgence of these narratives around the Eurozone and migration crises.

These two divisions - historical and cultural - seem to be re-emerging from the past and hitting European integration hard. The North-South divide is not an internal divide within the European Union, as Brexit only extends the distance between the northern countries and the European project. And while the East-West divide pits the European Union against its eastern margins (Balkans, Russia, Turkey), the recent distance of several Central and Eastern European countries from "Western" values - and the definition of these values - also shows that Westernization through EU membership has shown some clear limits.

In this general context, the Franco-German relationship, at the crossroads of these North-South and East-West antagonisms, is more than ever the essential link in this Europe threatened by disunity. France, especially, has a new role to play in ensuring that the East/West divide does not fracture Europe, in bringing itself closer to central and eastern European Member States that it fell out with at the turn of the century, and has only paid nary political attention to compared to Germany since then. The aftermath of BREXIT therefore spells a real opportunity for France to establish itself as a political actor in central Europe, and to add an extra layer in its relationship with Germany, which Emmanuel Macron (and his predecessors) have all tried to rebalance.

Maps and statistics show that the new members of the East - the countries of Central and Eastern Europe, which joined the Union in 2004 and 2007 -, largely helped by funding from the European budget, are still lagging behind the countries of Western Europe in their development despite the very fast pace of their catching up. States such as Hungary and Poland, for example, reach 60% of France's GDP per capita level in purchasing power parity (and only 30% in nominal terms), and Romania and Bulgaria 40% (20% in nominal terms).

With the crisis that has affected the Mediterranean countries, the development gap in the peripheral regions of the Mediterranean (Southern Italy, Southern Spain, Portugal, Greece), which was thought to be in the process of being absorbed, has reappeared; so much so that the richest central and eastern European countries have now overtaken (Slovenia) or joined (Czech Republic, Estonia, Slovakia) the least wealthy of the Mediterranean Union countries, Greece and Portugal (in GDP per capita nominal).

The countries of Central and Eastern Europe share in principle the same interest in maintaining aid from the European budget and in preserving the right of movement of "posted workers" - in the face of attempts, pushed in particular by France, to tighten regulations in this field, or those countries that question the free movement of workers and capital. This is particularly the case for Poland, the largest of the central and eastern European countries. However, these countries do not form a united front, as looking at the trends of V4 politics clearly shows, and other papers in this series show.

Slovenia, Slovakia and the Baltic States have chosen to join the euro, and the first two have even support the financial transaction tax designed to raise new revenue. Conversely, countries such as Poland, the Czech Republic and Hungary are not currently considering joining the single currency, both out of fear of the consequences for their heavily export-driven economies and the lack of stability of the Eurozone. The fact that the Czech Republic has requested observer status in Eurozone group meetings does not necessarily indicate a willingness to join in the near future, but rather should be seen as a way to ensure that openness of the discussions is ensured and that the Eurogroup does not become a first cog in the machinery of a multi-speed Europe.

This is because the divisions between the countries of Central and Eastern Europe and the West are not only economic but also political. These countries had, before the fall of communism, a non-existent or weak democratic tradition. Long dominated by empires (Ottoman, Austrian, Russian), they unfortunately existed as free and independent states for only a short time. Slovakia and the countries resulting from the break-up of Yugoslavia - with the exception of Serbia - had never even existed as states in modern times.

It is therefore not surprising that they are inclined to denounce the supranational encroachments of "Brussels" on their newly conquered or reconquered sovereignty, especially since their influence on the European "system" remains weak, a point oft repeated by Czech Prime Minister Andrej Babis. This national, or even sovereignist, claim is undoubtedly an important factor in explaining the reluctance of the largest Central and Eastern European countries - which have a tradition of regional actors - to join the single currency project, while smaller countries , such as the Baltic States, Slovakia, Slovenia, have decided to join it.

Another characteristic of the specific political path of the countries of Central and Eastern Europe is the affirmation by some political movements (Viktor Orbán's Fidesz, in power in Hungary since 2010, the Kaczynski brothers' PiS, in power in Poland from 2005 to 2007 and again since 2015) of a model of "illiberal democracy" that distances itself from the Western model of democracy, to the point of attacking fundamental pillars of democracy such as the independence of the media or justice.

More generally, these countries are affected even more than Western countries by the weakening of the social democratic left against the liberal right and the extreme populist and nationalist right. This development is all the more surprising as they are the main beneficiaries of European solidarity. The "net contributions" that benefit them through the European budget are indeed free of charge, unlike the aid plans linked to the crisis in the euro zone, which take the form of repayable loans granted in return for heavy economic and budgetary reform commitments. These countries, if they were all in the euro, should be part of the "solidarity camp" in the debates on the management of the single currency. But the fact that they are poorer, in a phase of economic catching-up or liberal economic orientation, may explain their reluctance to help countries like Greece without compensation.

This viewpoint, which is often expressed in western member states, is unfortunately quite limitative, and represents the lack of understanding of each other's perspectives. The Union's cohesion policies were conceived - among other things - as a form of compensation for the opening up of the Central European markets, of which there would be little doubt about the reality: a large-scale market share and implantation of large Western companies. It is therefore too simple to reduce these strong counter-reactions as an outbreak of misplaced nationalism in these countries which, after having sold everything, or almost, off are now trying to return attributes of sovereignty to their states. This means equipping themselves with national champions capable of competing with foreign capital that had always been favored until then, and to regain control in key sectors of the economy, by creating their own banks for example. Similarly, a significant proportion of these European funds is captured by foreign companies, which are very dominant on these markets, and whose profits immediately leave the countries where they benefited from them. These companies have certainly created jobs in the process, but maintain the region in an unenviable status as a low-cost production workshop. In addition, this money unfortunately benefits the new ruling elites much more than the citizens, and the change essentially consists in a shift from ultra-capitalism imposedby multinationals to a national oligarchy doped with EU funds, with the documented abuses that have arisen in the CEE region. The massive influx of money into countries with weak institutions and no real EU control mechanism, as shown by the post-ante Commission's attempt to regain a say over CAP funds in the the Czech Republic, has effectively fostered the emergence of a political system from which citizens feel disconnected, as well as it feeds disconnection from the EU funds themselves, and thus limits the value of the argument that was mentioned at the beginning of this paragraph.

It is also important to stress that the current convergence model based on foreign capital has clearly not led to any underdevelopment of Central Europe. On the contrary, the region's growth has been quite impressive, but is now running the risk of getting stuck in a mode of specialization within the global value chain that, in Europe, is focused around Germany. High value-added operations - such as design, sales and marketing - have become a domain of the center, while low value-added manufacturing is located in the periphery. More innovation is needed in these different countries to help them move up this value-added chain, and this requires both a change of mentality of the companies that invest in the countries but also awareness and willingness from local politicians to incentivize such changes, at the risk of otherwise making durable this key aspect of the East/West divide.

This situation has gone on to serve the interests of certain political forces in the region: Brussels has often been demonized in Central Europe as a tool in the hands of these supposed central core interests in maintaining the region as an economic periphery. This is indeed an inflexion point which could allow for long-term, structural changes to take place in the region. EU recommendations not to increase wages to maintain the region's competitiveness can be interpreted as an attempt to preserve the interests of foreign investors, but it is possible to rebalance the bargaining power with multinationals through a more coordinated fiscal policy, for example on corporate taxes, and . By preventing this so-called race to the bottom, governments could invest tax revenues in innovation-based growth, including through education and the promotion of national added-value competences.

Finally, the refugee crisis in 2015-2016 also highlighted the unity of the Central and Eastern European countries' front - particularly in the context of the Visegrád Group - on the issue of refugee reception and integration. By closing their borders in a cascade - starting with Hungary vis-à-vis Serbia - these countries helped to close the Balkan migration route, until an EU-Turkey agreement ended in March 2016 by stopping the arrival of migrants from Turkey. Above all, they contested the measure, decided by a qualified majority at the Council, of a compulsory relocation plan for refugees entering the Schengen area, going so far as to attack - in vain - this measure before the Court of Justice of the European Union. This crisis represents another inflexion point in the East/West divide, especially as these countries feel like their policy choices were vindicated later on by the European level consensus on how to move forward with dealing with migration once the crisis had ended - namely, support to control the flows in origin countries, the establishment of platforms in the same countries, and a general reluctance to take on further arrivals, as symbolized by the discussions around the disembarkation of each boat in a Maltese or Italian port. In the mind of certain central European leaders, this state of fact embodied the East/West divide, with the West taking on the ideas developed by the East without giving them credit, and maintaining a strong political line on the need for solidarity, especially if this discourse was accompanied by linking solidarity with the future availability of structural funds.

All these issues highlight the key importance that both France and the Franco-German tandem will have in helping bridge this gap that has manifested itself, as we have attempted to show above. As the main driver of the political and economic futures of the EU, France and Germany have the joint responsibility to give coherence and direction to the European project, which is even more relevant given the weight of their investments into the central Europe's economy. The two countries are in fact at the crossroads of the divisions between northern and southern Europe - France is a country of both the North and the South, and Germany itself is divided almost equally, and maintains a historical influence from the East and the West. France and Germany finding a common voice on how to ensure that Central and Eastern European countries feel part of the debate on the future of the EU would represent a very symbolic and important step forward in ensuring European unity and preventing any further feeling of isolation of the CEE region

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